

ECOLAB INC.  
Form 10-Q  
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from                      to

Commission File No. 1-9328

ECOLAB INC.

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(Exact name of registrant as specified in its charter)

Delaware	41-0231510
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

370 Wabasha Street N., St. Paul, Minnesota 55102

(Address of principal executive offices)(Zip Code)

1-800-232-6522

(Registrant's telephone number, including area code)

(Not Applicable)

(Former name, former address and former fiscal year,  
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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Non-accelerated filer  
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 2016.

291,551,991 shares of common stock, par value \$1.00 per share.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED STATEMENT OF INCOME

(unaudited)

(millions, except per share amounts)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
Net sales	3,386.1	3,446.4	9,800.7	10,133.1
Operating expenses				
Cost of sales (including special charges (a))	1,737.2	1,820.0	5,153.8	5,391.8
Selling, general and administrative expenses	1,071.6	1,070.7	3,253.1	3,286.7
Special (gains) and charges	3.2	142.7	35.7	216.1
Operating income	574.1	413.0	1,358.1	1,238.5
Interest expense, net	64.9	57.6	196.3	181.3
Income before income taxes	509.2	355.4	1,161.8	1,057.2
Provision for income taxes	129.7	105.3	286.7	262.9
Net income including noncontrolling interest	379.5	250.1	875.1	794.3
Net income attributable to noncontrolling interest (including special charges (a))	5.4	(7.7)	11.8	1.1
	\$	\$	\$	\$
Net income attributable to Ecolab	374.1	257.8	863.3	793.2
Earnings attributable to Ecolab per common share				
	\$	\$	\$	\$
Basic	1.28	0.87	2.95	2.67
	\$	\$	\$	\$
Diluted	1.27	0.86	2.91	2.63
	\$	\$	\$	\$
Dividends declared per common share	0.350	0.330	1.050	0.990
Weighted-average common shares outstanding				
Basic	291.6	295.2	292.8	296.5
Diluted	295.7	300.0	297.1	301.5

(a) Cost of sales includes special charges of \$23.8 in the third quarter of 2015, and \$61.9 and \$35.4 in the first nine months of 2016 and 2015, respectively. Net income (loss) attributable to noncontrolling interest includes special charges of \$11.1 in both the third quarter and the first nine months of 2015.

The accompanying notes are an integral part of the consolidated financial statements.



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

(millions)	Third Quarter Ended		Nine Months Ended	
	September 30 2016	2015	September 30 2016	2015
	\$	\$	\$	\$
Net income including noncontrolling interest	379.5	250.1	875.1	794.3
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments				
Foreign currency translation	17.2	(211.5)	(1.3)	(556.3)
Gain (loss) on net investment hedges	(1.2)	(12.0)	(29.1)	66.8
	16.0	(223.5)	(30.4)	(489.5)
Derivatives and hedging instruments	(9.5)	7.2	(40.2)	12.1
Pension and postretirement benefits				
Amortization of net actuarial loss and prior service costs included in net periodic pension and postretirement costs	5.6	7.5	16.7	23.6
Postretirement benefits changes	30.9	-	30.9	-
	36.5	7.5	47.6	23.6
Subtotal	43.0	(208.8)	(23.0)	(453.8)
Total comprehensive income, including noncontrolling interest	422.5	41.3	852.1	340.5
Comprehensive income (loss) attributable to noncontrolling interest	8.0	(7.0)	17.8	-
	\$	\$	\$	\$
Comprehensive income attributable to Ecolab	414.5	48.3	834.3	340.5

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED BALANCE SHEET

(unaudited)

(millions, except shares and per share amounts)	September 30 2016	December 31 2015
<b>ASSETS</b>		
Current assets		
	\$	\$
Cash and cash equivalents	180.6	92.8
Accounts receivable, net	2,349.6	2,390.2
Inventories	1,342.4	1,388.2
Deferred income taxes	-	250.0
Other current assets	299.4	326.3
Total current assets	4,172.0	4,447.5
Property, plant and equipment, net	3,292.9	3,228.3
Goodwill	6,515.5	6,490.8
Other intangible assets, net	3,914.3	4,109.2
Other assets	484.1	365.9
	\$	\$
Total assets	18,378.8	18,641.7
<b>LIABILITIES AND EQUITY</b>		
Current liabilities		
	\$	\$
Short-term debt	1,571.2	2,205.3
Accounts payable	1,022.7	1,049.6
Compensation and benefits	505.8	509.0
Income taxes	83.3	52.2
Other current liabilities	991.0	948.3
Total current liabilities	4,174.0	4,764.4
Long-term debt	5,091.4	4,260.2
Postretirement health care and pension benefits	914.5	1,117.1
Deferred income taxes	1,030.7	1,281.2
Other liabilities	226.4	238.4
Total liabilities	11,437.0	11,661.3
Equity (a)		
Common stock	352.3	350.3
Additional paid-in capital	5,236.1	5,086.1
Retained earnings	6,716.7	6,160.3
Accumulated other comprehensive loss	(1,452.3)	(1,423.3)
Treasury stock	(3,983.2)	(3,263.5)
Total Ecolab shareholders' equity	6,869.6	6,909.9
Noncontrolling interest	72.2	70.5
Total equity	6,941.8	6,980.4
	\$	\$
Total liabilities and equity	18,378.8	18,641.7

- (a) Common stock, 800.0 million shares authorized, \$1.00 par value per share, 291.6 million shares outstanding at September 30, 2016, 296.0 million shares outstanding at December 31, 2015. Shares outstanding are net of treasury stock.

The accompanying notes are an integral part of the consolidated financial statements.



## CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

(millions)	Nine Months Ended September 30	
	2016	2015
<b>OPERATING ACTIVITIES</b>		
	\$	\$
Net income including noncontrolling interest	875.1	794.3
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	420.9	422.7
Amortization	217.2	224.4
Deferred income taxes	(55.3)	(176.2)
Share-based compensation expense	67.7	60.1
Excess tax benefits from share-based payment arrangements	(39.5)	(36.2)
Pension and postretirement plan contributions	(207.0)	(54.0)
Pension and postretirement plan expense	43.1	87.0
Restructuring charges, net of cash paid	(48.1)	(9.9)
Venezuelan charges	-	165.9
Loss on sale of business	-	13.7
Asset charges and write-downs	50.9	-
Other, net	11.9	2.2
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	37.8	(11.6)
Inventories	34.6	(77.4)
Other assets	(14.0)	(79.8)
Accounts payable	(37.6)	(63.9)
Other liabilities	134.0	133.9
Cash provided by operating activities	1,491.7	1,395.2
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(478.6)	(551.6)
Capitalized software expenditures	(32.2)	(24.7)
Property and other assets sold	29.6	10.2
Acquisitions and investments in affiliates, net of cash acquired	(44.7)	(129.5)
Divestiture of businesses	-	0.3
Release from acquisition related escrow	-	44.4
Restricted cash activity	(55.9)	-
Settlement of net investment hedges	-	101.8
Cash used for investing activities	(581.8)	(549.1)
<b>FINANCING ACTIVITIES</b>		
Net issuances (repayments) of commercial paper and notes payable	(522.4)	(227.4)
Long-term debt borrowings	793.8	1,225.0
Long-term debt repayments	(130.5)	(884.2)
Reacquired shares	(737.8)	(727.8)
Dividends paid	(324.5)	(301.6)

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Exercise of employee stock options	62.3	57.8
Excess tax benefits from share-based payment arrangements	39.5	36.2
Acquisition related liabilities and contingent consideration	(3.8)	(0.8)
Cash used for financing activities	(823.4)	(822.8)
Effect of exchange rate changes on cash and cash equivalents	1.3	(48.1)
Increase (decrease) in cash and cash equivalents	87.8	(24.8)
Cash and cash equivalents, beginning of period	92.8	209.6
	\$	\$
Cash and cash equivalents, end of period	180.6	184.8

The accompanying notes are an integral part of the consolidated financial statements.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. CONSOLIDATED FINANCIAL INFORMATION

The unaudited consolidated financial information for the third quarter and nine months ended September 30, 2016 and 2015 reflect, in the opinion of company management, all adjustments necessary for a fair presentation of the financial position, results of operations, comprehensive income (loss) and cash flows of Ecolab Inc. ("Ecolab" or "the company") for the interim periods presented. Any adjustments consist of normal recurring items.

The financial results for any interim period are not necessarily indicative of results for the full year. The consolidated balance sheet data as of December 31, 2015 was derived from the audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The unaudited consolidated financial information should be read in conjunction with the consolidated financial statements and notes thereto incorporated in the company's Annual Report on Form 10-K for the year ended December 31, 2015.

During the first quarter of 2016, the company early-adopted the accounting guidance issued in November 2015 that requires all deferred tax assets and liabilities to be classified as noncurrent on the Consolidated Balance Sheet, using the prospective application method. Periods prior to the first quarter of 2016 have not been retrospectively adjusted for adoption of this guidance. Previous guidance required the deferred taxes for each jurisdiction to be presented as a net current asset or liability and net noncurrent asset or liability. As a result of the new guidance, each jurisdiction now only has one net noncurrent deferred tax asset or liability. The new guidance does not change the existing requirement that only permits offsetting deferred tax assets and liabilities within a single jurisdiction.

With respect to the unaudited financial information of the company for the third quarter and nine months ended September 30, 2016 and 2015 included in this Form 10-Q, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. Their separate report dated November 3, 2016 appearing herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended (the "Act"), for their report on the unaudited financial information because that report is not a "report" or a "part" of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

2. SPECIAL (GAINS) AND CHARGES

Special (gains) and charges reported on the Consolidated Statement of Income include the following:

(millions)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Cost of sales			\$	\$
Restructuring activities	\$ -	\$ -	0.9	2.2
Energy related charges	-	-	51.0	-
Fixed asset impairment and other inventory charges	-	-	10.0	-
Venezuela related activities	-	23.8	-	33.2
Subtotal	-	23.8	61.9	35.4
Special (gains) and charges				
Restructuring activities	(7.7)	12.1	(6.8)	33.1
Champion and Nalco integration costs	-	4.7	-	14.9
Energy related charges	-	-	12.6	-
Venezuela related activities	-	111.9	(7.8)	132.7
Other	10.9	14.0	37.7	35.4
Subtotal	3.2	142.7	35.7	216.1
Operating income subtotal	3.2	166.5	97.6	251.5
Net income attributable to noncontrolling interest				
Venezuela related activities	-	(11.1)	-	(11.1)
	\$	\$	\$	\$
Total special (gains) and charges	3.2	155.4	97.6	240.4

For segment reporting purposes, special (gains) and charges are not allocated to reportable segments, which is consistent with the company's internal management reporting.

## Restructuring Activities

The company's restructuring activities are associated with plans to enhance its efficiency and effectiveness and sharpen its competitiveness. Its restructuring plans include net costs associated with significant actions involving employee-related severance charges, contract termination costs and asset write-downs and disposals. Employee termination costs are largely based on policies and severance plans, and include personnel reductions and related costs for severance, benefits and outplacement services. These charges are reflected in the quarter when the actions are probable and the amounts are estimable, which typically is when management approves the actions. Contract termination costs include charges to terminate leases prior to the end of their respective terms and other contract terminations. Asset write-downs and disposals include leasehold improvement write-downs, other asset write-downs associated with combining operations and disposal of assets.

Restructuring activities have been included as a component of cost of sales and special (gains) and charges on the Consolidated Statement of Income. Amounts included as a component of cost of sales include supply chain related severance and other asset write-downs associated with combining operations. Restructuring liabilities have been classified as a component of both other current and other noncurrent liabilities on the Consolidated Balance Sheet.

## Energy Restructuring Plan

In April 2013, following the completion of the acquisition of privately held Champion Technologies and its related company Corsicana Technologies (collectively "Champion"), the company commenced plans to undertake restructuring and other cost-saving actions to realize its acquisition-related cost synergies as well as streamline and strengthen Ecolab's position in the global energy market (the "Energy Restructuring Plan"). Actions associated with the acquisition to improve the effectiveness and efficiency of the business included a reduction of the combined business's global workforce. Actions also included leveraging and simplifying its global supply chain, including the reduction of plant, distribution center and redundant facility locations and product line optimization.

Restructuring charges within the Energy Restructuring Plan were substantially completed during the fourth quarter of 2015. The company recorded net gains of \$0.4 million (\$0.2 million after tax) and net charges of \$0.9 million (\$0.6 million after tax) during the third quarter of 2016 and 2015, respectively. During the nine months ended September 30, 2016 and 2015, the company recorded net charges of \$4.2 million (\$2.4 million after tax) and \$15.0 million (\$10.5 million after tax), respectively.

Restructuring activity related to the Energy Restructuring Plan since inception of the underlying actions includes the following:

Employee

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(millions)	Termination Costs	Asset Disposals	Other	Total
2013 - 2015 Activity				
Recorded expense and accrual	\$ 55.6	\$ 13.2	\$ 15.3	\$ 84.1
Net cash payments	(44.3)	3.9	(2.1)	(42.5)
Non-cash charges	-	(17.1)	-	(17.1)
Effect of foreign currency translation	0.4	-	-	0.4
Restructuring liability, December 31, 2015	11.7	-	13.2	24.9
2016 Activity				
Recorded expense (income) and accrual	(0.8)	0.8	4.2	4.2
Net cash payments	(5.6)			